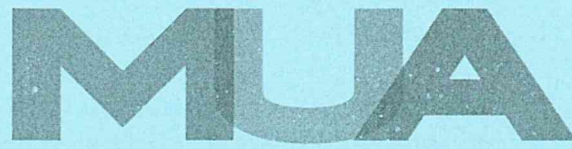


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**UNDERGRADUATE UNIVERSITY EXAMINATIONS**

**SCHOOL OF MANAGEMENT AND LEADERSHIP**

**DEGREE OF BACHELOR OF COMMERCE**

**BCM 412: TAXATION**

**DATE: 2<sup>ND</sup> AUGUST 2016**

**DURATION: 2 HOURS**

**MAXIMUM MARKS: 70**

**INSTRUCTIONS:**

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.



**QUESTION ONE**

- I) Distinguish between the following terms as used in the ITA cap 470.
- a) Tax evasion and Tax avoidance (4 Marks)
  - b) Thin capitalization and Transfer pricing (4 marks)
  - c) Tax planning and back duty (4 Marks)
- ii) a) List the conditions under which VAT on bad debts is claimable (3marks)
- (b) The management of Maendeleo Ltd., a registered supplier of vatiable goods presented the following information relating to the company's transactions for the six months ended 30 June 2014.

Date	Purchases Sh.	Sales Sh.
January	1,500,000	2,200,000
February	1,800,000	2,700,000
March	1,700,000	2,000,000
April	1,500,000	900,000
May	400,000	600,000
June	2,000,000	2,600,000

The amounts stated above were inclusive of VAT at a rate of 16%.

**Additional information:**

- All purchases were made on cash basis while all sales were on credit basis. The cash due on credit sales was received in the month following the month of sale.
- Ten per cent of the purchases made by the company in the month of April were returned to the suppliers in the same month.
- Included in the sales for the month of May was Sh.200,000 for which the debtor defaulted and was subsequently declared bankrupt on 30 June 2014.

**Required**

Determine the VAT payable or refundable for each of the six months from January to June 2014. (10 marks)

**QUESTION TWO**

- a) Discuss the role of information technology in the development of Kenya tax system highlighting the key benefit (10 marks)
- b) List any five principles of a good tax system. (5 marks)



**QUESTION THREE**

- a) Distinguish between forward and backward shifting of a tax (4 marks)
- b) Briefly explain the extent to which the following taxes can be shifted.
- i. Income tax (2 marks)
  - ii. Customs duty (2 marks)
- c) Define progressive tax and outline its advantages. (7 marks)

**QUESTION FOUR**

Kimeli, Susan and Njoroge are partners trading under the name Viscount Enterprises. They share profit and losses in the ratio of 4:3:3. Given below is the Profit and loss account of the partnership as at 31Dec 2014.

**Viscount Enterprises****Profit and loss account as at 31 December 2014**

salaries and wages	300,000	Gross profit	2,500,000
Rents, Rates and taxes	150,000	Miscellaneous receipts	150,000
Office Expenses	204,000	Discounts	80,000
Printing and Stationery	64,000	Rent from Property	132,000
Installment Tax paid	45,000	Profit on sale of shares	100,000
Advertising	73,000	Interest on deposit	120,000
<b>Interest on capital:</b>			
U	60,000		
S	70,000		
N	80,000		
Legal fees	82,000		
<b>Commission to Partners</b>			
U	45,000		
N	35,000		
Depreciation	92,000		
Bad Debts	68,000		
General Expenses	99,000		
Donation to famine relief	100,000		
General Reserves	120,000		
Local taxes on property	12,000		
Electricity	46,000		
showroom expenses	127,000		
<b>Net profit</b>	<b>1,210,000</b>		
	<u><u>3,082,000</u></u>		<u><u>3,082,000</u></u>



The partners have provided the following information in support of the accounts:

- It has been the practice to value the stock at cost price; however the closing stock (31.12.2014-sh. 180,000) has been valued at the market price which is less by 10% of its cost price.
- Salaries and wages include 'salaries' amounting to sh. 40,000 paid to Susan.
- Advertising includes sh. 10,000 spend on advertising campaign to introduce a new product in the market.
- Legal charges include a sum of sh. 12,000 as fine and penalty
- Capital allowance have been agreed with the commissioner of Income tax
- Kimeli's other income includes sh. 120,000 from rent. He has brought forward business loss of sh. 135,000 from assessment of the year of income 2013 of the partnership.
- Susan has got no other income
- Njoroge has income of sh. 200,000 from bet winnings. He has brought forward business loss of sh. 135,000 from assessment of the income for 2013 partnership.

**Required:**

- a) Compute the total taxable income from the partnership business for the year 2014. (10marks)
- b) Allocate the profit from partnership to the partners. (5marks)

#### QUESTION FIVE

- a) What is meant by the term "Resident" in relation to corporate body? (3 marks)
- b) Mabati and Property Ltd a private company makes its accounts at 31st December each year and has prepared the following Profit and Loss Account for 2010.

General administrative expenses	80,000
Director's fees and expenses	10,000
Repairs and renewals	24,000
Subscriptions and donations	4,000
Bad Debts	16,000
Preliminary expenses	6,000
Retirement benefit	100,000
Rent, rates and insurance	60,000
Patents written off	5,000
Legal and accountancy	83,000
Interest on overdue tax	5,000
Interest in lieu of dividends	10,000



Depreciation	20,000
Net profit before taxation	122,000
	<u>485,000</u>
Gross profit b/d	460,000
Bad debts previously Written off	2,000
Dividends (Gross)	10,000
Post office savings	
Bank interest	3,000
Gains on sale of plant and machinery	10,000
	<u>485,000</u>

## Notes:

- |   |                |
|---|----------------|
| a. Repairs and Renewals:  | Shs            |
| Redecoration of an existing business  | 6,000          |
| Renovation to new building  | 10,000         |
| Partition and carpeting of old building to<br>Create extra office for Personnel Manager           | 8,000          |
|   | <u>24,000</u>  |
| b. Subscription and donations:  |                |
| National Chamber of Commerce and Industry   | 2,000          |
| Kenya Red Cross Society   | 1,000          |
| Sporting facilities for Staff   | 1,000          |
|   | <u>4,000</u>   |
| c. Bad Debts:   |                |
| This is on account of a loan given to a supplier and who was adjudged a bankrupt during the year. |                |
| d. Preliminary expenses:  | Shs            |
| Balance of stamp duty on issue of share<br>Capital  | 4,000          |
| Secretarial Services fees now written off   | 2,000          |
|   | <u>6,000</u>   |
| e. Retirement Benefits:   |                |
| N.S.S.F contribution  | 10,000         |
| Pension to Management Staff   | 80,000         |
| Contribution to approved Provided Fund  | 10,000         |
|   | <u>100,000</u> |
| f. Legal and Accountancy:   |                |
| Staff Services Agreement  | 4,000          |
| Contract for purchase of a new business   | 11,000         |
| Audit fee   | 60,000         |
| Income Tax – Appeal to Local Committee  | 4,000          |
| Lease preparation (5 Year lease)  | 4,000          |
|   | <u>83,000</u>  |
| g. Interest in lieu of dividends  |                |



The company did not pay dividends in 2006 but instead decided to pay interest at 10% on the share issued and fully paid.

h. Dividends:

These were from a subsidiary company where Mabati and Property Limited holds 75% of the issued share capital.

i. Gain on Sale of Plant and Machinery:

One line of business was discontinued in 2007 and all the plant and machinery were sold. The following details relate to the plant and Machinery:

	Shs.
Cost in 2006	160,000
Aggregate depreciation to 2009	65,520
	<u>94,480</u>
Sales proceeds	104,000
Gain	10,000/-

The written down value for tax purposes had been agreed with principal Assessor at shs. 93,790/- for the year ending 31/12/2009. (12 marks)

### QUESTION SIX

- a) What is 'set-off' tax? (2 marks)
- b) Mrs. Kamau works with Unga Ltd. and has provided you with the following information for the year ended 31 December 2014.
1. Pension from previous employment Sh.20, 000 per month.
  2. Salary sh.120, 000 per month (P.A.Y.E Sh.42, 000 per month)
  3. Mrs. Kamau and her husband own a company whose taxable income was agreed at Sh.500, 000 after charging husband's salary of Sh.250, 000 per month (P.A.Y.E Sh.60, 000 per month).
  4. Unga Ltd. provided a company house to Mrs. Ongera in South B where rent of similar houses was Sh.20, 000 per month.
  5. Mrs. Kamau works over-time and her over-time income averages Sh.10, 000 per month.
  6. Mrs. Kamau enjoyed medical benefit of Sh.160, 000 during the year. She is a senior manager and the company has medical cover for all its employees.
  7. She obtained free consumables from the company as a Christmas gift worth Sh.30, 000 during the year.
  8. Mrs. Kamau owns rental property at Komarock Estate and receives Sh.50, 000 as rental income per month. During the year, she incurred Sh.60, 000 in



renovations, repairs and painting before letting the property. She had obtained a mortgage loan from Housing Finance Company amounting to Sh 3,000,000. She paid Sh 900,000 during the year of which Sh 500,000 was principal.

9. Mrs. Kamau owns 20% of the shares of Unga Ltd.

**Required:**

The taxable income for Mr and Mrs Kamau for the year of income 2013. (13 marks)

